

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

OCTOBER 29, 2007

The Honorable Robert C. Byrd,
President Pro Tempore of the U.S. Senate, Washington, DC 20510
The Honorable Nancy Pelosi,
Speaker of the U.S. House of Representatives, Washington, DC 20510

DEAR SENATOR BYRD AND SPEAKER PELOSI:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the Commission's 2007 End-of-Year Report to the Congress—the fifth major report presented to Congress by the Commission—pursuant to Public Law 106-398 (October 30, 2000), as amended by Public Law No. 109-108 (November 22, 2005). This report responds to the mandate for the Commission “to monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China.” In this report, the Commission reached a broad and bipartisan consensus; it approved the Report unanimously, with all 12 members voting to approve and submit it.

In accordance with our mandate, this report includes detailed treatment of our investigations of the areas identified by Congress for our examination and recommendation. These areas are:

- **PROLIFERATION PRACTICES**—The role of the People's Republic of China in the proliferation of weapons of mass destruction and other weapons (including dual-use technologies), including actions the United States might take to encourage the People's Republic of China to cease such practices
- **ECONOMIC TRANSFERS**—The qualitative and quantitative nature of the transfer of United States production activities to the People's Republic of China, including the relocation of high technology, manufacturing, and research and development facilities, the impact of such transfers on United States national security, the adequacy of United States export control laws, and the effect of such transfers on United States economic security and employment
- **ENERGY**—The effect of the large and growing economy of the People's Republic of China on world energy supplies and the role the United States can play (including joint research and development efforts and technological assistance) in influencing the energy policy of the People's Republic of China
- **UNITED STATES CAPITAL MARKETS**—The extent of access to and use of United States capital markets by the People's Republic of China, including whether or not existing disclosure and transparency rules are adequate to identify People's Republic of China companies engaged in harmful activities
- **REGIONAL ECONOMIC AND SECURITY IMPACTS**—The triangular economic and security relationship among the United States, [Taiwan], and the People's Republic of China (including the military modernization and force deployments of the People's Republic of China aimed at [Taiwan]), the national budget of the

People's Republic of China, and the fiscal strength of the People's Republic of China in relation to internal instability in the People's Republic of China and the likelihood of the externalization of problems arising from such internal instability

- **UNITED STATES-CHINA BILATERAL PROGRAMS**—Science and technology programs, the degree of non-compliance by the People's Republic of China with agreements between the United States and the People's Republic of China on prison labor imports and intellectual property rights, and United States enforcement policies with respect to such agreements
- **WORLD TRADE ORGANIZATION COMPLIANCE**—The compliance of the People's Republic of China with its accession agreement to the World Trade Organization (WTO)
- **FREEDOM OF EXPRESSION**—The implications of restrictions on speech and access to information in the People's Republic of China for its relations with the United States in the areas of economic and security policy

The Commission conducted its work through a comprehensive set of seven public hearings, taking testimony from over 118 witnesses from Congress, the executive branch, industry, academia, policy groups, and other experts. It conducted six of these hearings in Washington, D.C. and conducted one field hearing in Chapel Hill, North Carolina. For each of its hearings, the Commission produced a transcript (posted on its website—www.uscc.gov). The Commission also received a number of briefings by officials of executive branch agencies, intelligence community agencies, and the armed services, including two days of both classified and unclassified briefings at Wright-Patterson Air Force Base, Ohio by the Defense Department's and military services' research agencies on Chinese and U.S. science, technology, research, and development accomplishments and challenges. (The Commission is preparing a classified report to Congress on those topics.)

Commissioners also conducted official visits to China, Hong Kong, and Taiwan, and to India to hear and discuss Indian perspectives on China and its global and regional activities. In these visits, the Commission delegations met with U.S. diplomats, host government officials, representatives of the U.S. and foreign business communities, and local experts.

The Commission also relied substantially on the work of its excellent professional staff, and supported outside research in accordance with our mandate.

The Report includes 42 recommendations for Congressional action. Our ten most important recommendations appear on page 15 at the conclusion of the Executive Summary.

We offer this Report to Congress in the hope that it will be useful as an updated baseline for assessing progress and challenges in U.S.-China relations.

Yours truly,



Carolyn Bartholomew
Chairman



Daniel Blumenthal
Vice Chairman